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JOHN J. FINNIGAN, JR.  
Senior Counsel

**VIA OVERNIGHT MAIL**

September 14, 2004

Ms. Elizabeth O'Donnell  
Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
P.O. Box 615  
Frankfort, Kentucky 40602-0615

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**RECEIVED**

SEP 15 2004

PUBLIC SERVICE  
COMMISSION

Re: Direct Testimony of James P. Henning on Behalf of The Union Light, Heat and Power Company  
Case No. 2004-00363

Dear Ms. O'Donnell:

Enclosed please find an original and 14 copies of the redacted Direct Testimony of James P. Henning on Behalf of The Union Light, Heat and Power Company.

An earlier version was submitted to the Commission and stamped received on September 13, 2004. Unfortunately, a dollar amount on page 5, Line 22 was not redacted in that version. Please substitute the enclosed revised redacted version for our filing, and please place the earlier redacted version of Mr. Henning's testimony with the other materials for which we are seeking confidential treatment.

In addition, would you please return four Filed-Stamped copies in the enclosed overnight envelope.

If you have any questions, please feel free to contact me at (513) 287-3601.

Sincerely,



John J. Finnigan, Jr.

JJF/sew  
Enclosures

COMMONWEALTH OF KENTUCKY  
COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

SEP 15 2004

PUBLIC SERVICE  
COMMISSION

In the Matter of:

APPLICATION OF THE UNION LIGHT, HEAT )  
AND POWER COMPANY FOR DEVIATION )  
FROM THE REQUIREMENTS OF KRS )  
278.2207(1)(b), 278.2207(2) and 278.2219 )  
TO ALLOW IT TO ENTER INTO A NATURAL )  
GAS ASSET MANAGEMENT AGREEMENT )  
WITH CINERGY MARKETING & )  
TRADING, LP, ITS AFFILIATE, FOR A TWO- )  
YEAR TERM STARTING NOVEMBER 1, 2004 )

CASE NO. 2004-00363

DIRECT TESTIMONY OF  
JAMES P. HENNING  
ON BEHALF OF  
THE UNION LIGHT, HEAT AND POWER COMPANY

**DIRECT TESTIMONY OF JAMES P. HENNING**

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**Q. Please state your name and business address.**

A. My name is James P. Henning. My business address is 139 East Fourth Street, Cincinnati, Ohio 45202.

**Q. What is your present occupation?**

A. I am Manger of Cinergy's Gas Commercial Operations unit, which directs the day-to-day natural gas purchasing and supply operations of The Cincinnati Gas & Electric Company (CG&E) and its subsidiaries, one of which is The Union Light, Heat and Power Company (ULH&P). As such, I am responsible for the procurement of natural gas, interstate pipeline transportation and storage services.

**Q. Please summarize your educational background.**

A. I received a Bachelor of Science in Business Administration from Wright State University in 1988, and a Master's of Business Administration from the University of South Florida in 1990. I have attended numerous other industry and company sponsored programs and courses.

**Q. Please summarize your work history.**

A. I have worked in the natural gas industry for 14 years. From 1990-1993 I was employed at The Dayton Power & Light Company (DP&L) as a Gas Analyst in the Gas Supply Planning Department. My responsibilities as a Gas Analyst included gas and interstate pipeline procurement, system load forecasting, and daily load dispatching. From 1993-1996 I worked for Miami Valley Resources, Inc., DP&L's non-regulated natural gas sales company, as a Manager of Natural Gas Sales and Marketing. In 1996, I joined Cinergy Corp.'s non-regulated natural gas sales company (Cinergy Resources, Inc.) as the Manager

1 of Energy Sales and Services and worked in this capacity until 2000. As Manager of  
2 Energy Sales and Services, my responsibilities included the coordination of all retail sales,  
3 marketing and customer service activities in the Indiana, Ohio, and Kentucky markets.  
4 From 2000-2001 I worked for various departments within Cinergy Corp. I have been a  
5 Manager with the Gas Operations Department since October 2001.

6 **Q. Have you previously testified before any regulatory commissions?**

7 A. Yes, I have previously testified before the Indiana Utility Regulatory Commission and I  
8 filed testimony with the Kentucky Public Service Commission in Case No. 2003-00348.

9 **Q. What is the purpose of your direct testimony in this proceeding?**

10 A. I support ULH&P's request for a deviation from the requirements of KRS 278.2207(1)(b),  
11 278.2207(2) and 278.2219 to allow ULH&P to enter into an agreement with Cinergy  
12 Marketing & Trading, LP (CM&T) that provides for CM&T to manage ULH&P's gas  
13 supply assets for a two-year term starting November 1, 2004.

14 **Q. Are you involved in the current Asset Management Agreement between ULH&P and  
15 CM&T?**

16 A. Yes. In my current position as Manager, Gas Commercial Operations, I was responsible for  
17 interfacing with Mirant Americas Energy Marketing, LP (Mirant), ULH&P's first asset  
18 manager. I participated in the negotiations that led to the assignment of ULH&P's first  
19 Asset Management Agreement from Mirant to CM&T in October 2002. Since that time, I  
20 have been responsible for interfacing with CM&T in its role as ULH&P's asset manager. I  
21 was responsible for supervising the competitive bidding processes for selecting the asset  
22 manager for the 2003 Asset Management Agreement which the Commission approved in its

1 October 20, 2003 Order in Case No. 2003-00348, and for the upcoming 2004 Asset  
2 Management Agreement for which ULH&P seeks approval in this proceeding.

3 **Q. Please generally explain the terms and conditions of the 2004 Asset Management**  
4 **Agreement between ULH&P and CM&T.**

5 A. The 2004 Asset Management Agreement provides for CM&T to manage ULH&P's gas  
6 supply, storage and transportation assets and grants CM&T the right to utilize ULH&P's  
7 contracted gas supplies, interstate transportation capacity and storage services while  
8 requiring CM&T to meet ULH&P's full physical natural gas requirements. ULH&P  
9 continues to make daily supply decisions, and pays CM&T based on its "virtual" dispatch.  
10 In this manner, the amount that ULH&P pays CM&T for natural gas purchases and  
11 transportation is identical to what ULH&P would have paid to other suppliers and pipeline  
12 companies, less the asset management payment. The primary purpose for the agreement,  
13 from ULH&P's standpoint, was to optimize the value of ULH&P's interstate pipeline  
14 transportation contracts, storage contracts and gas supply contracts. The 2004 Asset  
15 Management Agreement will become effective November 1, 2004 and will expire on  
16 October 31, 2006.

17 **Q. Have you reviewed ULH&P's application for a deviation filed in this proceeding?**

18 A. Yes.

19 **Q. Do you have first hand knowledge of and do you support the facts described in the**  
20 **application?**

21 A. Yes.

22 **Q. Did you use a competitive bidding process to award a new Asset Management**  
23 **Agreement?**

1 A. Yes.

2 **Q. Please explain the competitive bidding process.**

3 A. Gas Commercial Operations identified several gas producer/market companies who had  
4 demonstrated their physical gas supply and delivery capabilities to ULH&P. This list of  
5 potential bidders was presented to Cinergy's Global Risk Management Group in order to  
6 determine their financial viability to provide asset management services for ULH&P. The  
7 Global Risk Management Group approved the following ten bidders, and ULH&P sent a  
8 request for proposal (RFP) to all ten bidders: BP Energy Company (BP); CM&T;  
9 CoEnergy Trading Company (CTC); Occidental Energy Marketing, Inc. (Occidental); and  
10 Sequent Energy Management (Sequent), ConocoPhillips Company; Anadarko Energy  
11 Services Company; Proliance Energy LLC; Entergy-Koch Trading, LP; and Oneok Energy  
12 Marketing and Trading. Only five companies responded: [REDACTED]

13 [REDACTED] ULH&P sought clarification of the bids received from CM&T and Occidental  
14 following the rules established for the competitive bidding process. CM&T was ultimately  
15 the highest bidder, with a bid to pay/credit a monthly amount of [REDACTED] to both CG&E  
16 and ULH&P to serve as the asset manager. This was not only the highest bid for the 2004  
17 Asset Management Agreement, but ULH&P's allocated share of [REDACTED] is higher than the  
18 monthly payment/credit of [REDACTED] that CM&T pays to ULH&P under the 2003 Asset  
19 Management Agreement. As a result, we selected CM&T as the asset manager.

20 **Q. How much will CM&T pay to ULH&P under the 2004 Asset Management**  
21 **Agreement?**

22 A. As I stated previously, CM&T will credit ULH&P [REDACTED] per month for serving as asset  
23 manager.

1 **Q. What will be the term of the 2004 Asset Management Agreement?**

2 A. The term of the new agreement will be two years, commencing on November 1, 2004.

3 **Q. In Ordering Paragraph 3 of an Order dated October 20, 2003 in Case No. 2003-00348,**  
4 **the Commission ordered ULH&P to perform a comparison of its costs for purchasing**  
5 **gas from CM&T under the 2003 Asset Management Agreement versus the cost that**  
6 **ULH&P would have paid by purchasing the gas at index prices. Did ULH&P perform**  
7 **such a comparison?**

8 A. Yes.

9 **Q. What were the results of this cost comparison?**

10 A. Attachment A to ULH&P's application shows the cost of gas that ULH&P purchased from  
11 CM&T during the time the 2003 Asset Management Agreement was in effect, versus the  
12 cost of gas at index prices for the same purchases. I adopt and support the explanation  
13 provided at pages 9-10 of ULH&P's Application for the variances between the gas cost for  
14 ULH&P's purchases from CM&T versus the cost of the same purchases at index prices.

15 **Q. What benefits does the Asset Management Agreement produce for ULH&P's**  
16 **ratepayers?**

17 A. CM&T will pay ULH&P [REDACTED] per month for the right to manage ULH&P's natural gas  
18 assets. This currently flows through ULH&P's GCA Clause 100% to customers. This is  
19 approximately 16% greater than the asset management fee that CM&T pays ULH&P under  
20 the current agreement. Finally, the amount that CM&T will pay is greater than the amount  
21 that ULH&P was previously able to obtain for off-system sales, when compared to the  
22 period of time when ULH&P performed off-system sales with the interstate pipeline  
23 transportation contracts that are currently in effect. ULH&P's customers also enjoy the

1 benefit of receiving asset management services from a financially stable company, which  
2 minimizes the risk that the asset manager will default on its obligations and cause  
3 disruptions in ULH&P's gas supply.

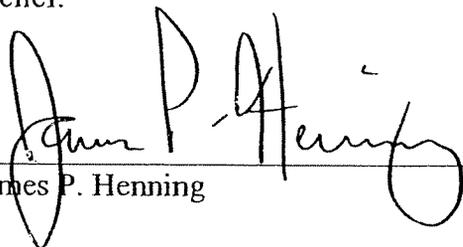
4 **Q. Does this conclude your direct testimony?**

5 **A. Yes.**

VERIFICATION

State of Ohio            )  
                                  )        ss:  
County of Hamilton    )

The undersigned, James P. Henning, being duly sworn, deposes and says that he is Manger of Cinergy Services, Inc.'s Gas Commercial Operations unit, that he has personal knowledge of the matters set forth in the foregoing testimony, and that the answers contained therein are true and correct to the best of his information, knowledge and belief.

  
\_\_\_\_\_  
James P. Henning

Subscribed and sworn to before me by JAMES P. HENNING on this 8th day of September, 2004.

  
\_\_\_\_\_  
NOTARY PUBLIC

My Commission Expires:

**ANITA M. SCHAFER**  
Notary Public, State of Ohio  
My Commission Expires Nov. 4, 2004